

Message Text

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ACTION AF-10

INFO OCT-01 ARA-10 EUR-12 EA-07 NEA-10 ISO-00 ERDA-05

AID-05 CEA-01 CIAE-00 COME-00 DODE-00 EB-08

FEAE-00 FPC-01 H-01 INR-07 INT-05 L-03 NSAE-00

NSC-05 OMB-01 PM-05 USIA-06 OES-07 SP-02 SS-15

STR-04 TRSE-00 ACDA-07 IO-13 PA-01 PRS-01 /153 W

-----061883 031436Z /47

R 031110Z AUG 77

FM AMEMBASSY LAGOS

TO SECSTATE WASHDC 2669

INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

USINT BAGHDAD

AMEMBASSY CARACAS

AMCONSUL DHAHRAN

AMEMBASSY DOHA

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMCONSUL KADUNA

AMEMBASSY KUWAIT

AMEMBASSY LIBREVILLE

AMEMBASSY LONDON

AMEMBASSY QUITO

AMEMBASSY TEHRAN

AMEMBASSY TRIPOLI

AMEMBASSY VIENNA

LIMITED OFFICIAL USE SECTION 01 OF 02 LAGOS 8681

E.O. 11652: N/A

TAGS: ENRG, NI

SUBJECT: NIGERIAN CRUDE OIL PRODUCTION

REF: (A) LAGOS 7319, (B) LAGOS 3491

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1. NIGERIAN CRUDE OIL PRODUCTION IN JUNE 1977 RECOVERED SLIGHTLY TO AN AVERAGE OF 2,236,257 BARRELS PER DAY (B/D) AS ADDITIONAL OUTPUT BY SHELL-BP AND AGIP/PHILLIPS MORE THAN OFFSET DECLINE BY GULF. FOLLOWING TABLE SHOWS PROVISIONAL PRODUCTION FIGURES FOR JUNE AND FINAL FIGURES FOR MAY (ORIGINAL MAY STATISTICS PUBLISHED BY SHELL-BP REVERSED FIGURES FOR MOBIL AND AGIP/PHILLIPS; CORRECT FIGURES ARE SHOWN HERE):

COMPANY	JUNE	MAY	PERCENT CHANGE
SHELL-BP	1,318,002	1,259,996	PLUS 4.6
GULF	273,583	322,174	-15.1
AGIP/PHILLIPS	253,193	233,265	PLUS 6U
MOBIL	234,193	233,265	PLUS 0.4
ELF	82,893	84,584	-2.0
TEXACO/CHEVRON	54,986	53,976	PLUS 1.9
PAN OCEAN	10,164	9,639	PLUS 5.4
ASHLAND	9,140	9,160	-0.2
ALL COMPANIES	2,236,257	2,209,813	PLUS 1.2

2. CURDE OIL EXPORTS AVERAGED 2,219,438 B/D COMPARED WITH 2,207,995 B/D IN MAY.

3. CURDE OIL DELIVERIES TO THE PORT HARCOURT REFINERY AVERAGED 58,197 B/D COMPARED WITH 57,326 B/D IN MAY.

4. DRILLING RIGS EMPLOYED AT MONTHS AND TOTALLED 16. ONE RIG, OCEAN MASTER II, WORKING FOR MOBIL, SANK IN STORM IN EARLY JUNE WHILE BEING TOWED TO NEW LOCATION. RIG COUNT FOR MAY REVISED UPWARD FROM 15 TO 18.

5. PRODUCTION FOR SECOND QUARTER THUS AVERAGED 2,234,543 B/D, WHICH WAS HIGHER THAN FIRST QUARTER RATE OF 2,216,248 IN SPITE OF APRIL PRICE INCREASE WHICH MADE NIGERIAN CRUDE UNCOMPT- LIMITED OFFICIAL USE

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TITIVE WITH SIMILAR CRUDE FROM OTHER PRODUCING COUNTRIES. MAIN REASON FOR APPARENT PARADOX IS THAT EMPTYING OF STORAGE TANKS IN MARCH IN RUSH TO BEAT ANTICIPATED PRICE HIKE EN- ABLED COMPANIES TO CONTINUE PRODUCTION IN APRIL AT HIGH- EST RATE IN 29 MONTHS IN SPITE OF DRASTIC FALL IN EXPORTS. IN MAY AND JUNE, NORMAL PEAK SEASONAL DEMAND IN U.S. FOR LIGHT CRUDES TO PRODUCE GASOLINE FAILED TOMATERIALIZE BECAUSE REFINERS HAD BUILT UP EXCESS INVENTORIES OF LIGHT CRUDES IN WINTER DURING HOME HEATING OIL CRISIS WHICH ENDED AS ABRU- PTLY AS IT BEGAN. THIS MAGNIFIED IMPACT OF OVERPRICING. HOWEVER, PRODUCTION AND EXPORTS REMAINED HIGHER THAN WOULD OTHERWISE HAVE BEEN THE CASE BECAUSE CRUDE BUYERS WERE COMMI- TTED UNDER THE TERMS OF THEIR CONTRACTS TO LIFT FIXED VOLUMES EACH QUARTER AND PENALTIES FOR FAILURE TO DO SO WERE SUFFI- CIENTLY SEVERE TO DETER THEM FROM ABANDONING THEIR CONTRACTS.

6. ALTHOUGH NIGERIA DID NOT RAISE CRUDE PRICES IN JULY WHILE OTHER PRODUCERS OF SIMILAR CRUDES DID, ITS OIL IS STILL OVERPRICED. BUYERS WHO GRITTED THEIR TEETH AND BORE IT IN SECOND QUARTER BECOMING DESPERATE IN JULY. GULF OIL SOURCE REPORTED U.S. STOCKS OF GASOLINE AND LIGHT CRUDE 13 TO 15 PERCENT HIGHER NOW THAN SAME

PERIOD LAST YEAR. TRADING COMPANY SOURCE CLAIMED AT LEAST 26 CARGOES OF NIGERIAN CRUDE ARE ON SEAS WITHNO BUYERS IN SIGHT (AT PRESENT LEVELS THIS WOULD REPRESENT APPROXIMATELY HALF A MONTH'S PRODUCTION). STORAGE TANKS ARE BRIMFUL AND EACH TIME A TANKER FAILS TO ARRIVE IT FORCES COMPLETE SHUTDOWN OF OIL FIELDS FEEDING THAT PARTICULAR TERMINAL. SHELL-BP, GULF, MOBIL AND AGIP/PHILLIPS, THE FOUR LARGEST PRODUCERS, HAVE ALL EXPERIENCED SHUTDOWNS OF AS MUCH AS 200,000 B/D FOR A WEEK AT A TIME. PRODUCING COMPANIES ESTIMATE THAT JULY PRODUCTION WAS AS MUCH AS 180,000 B/D BELOW THAT FOR JUNE, AND EXPECT AUGUST PRODUCTION TO BE EVEN LOWER, PERHAPS DOWN TO 2 MILLION B/D.

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7. NIGERIAN NATIONAL PETROLEUM CORPORATION OFFICIALS APPEAR REMARKABLY NONCHALANT AT PROSPECT OF LOSING AS MUCH AS DOLLARS 3 MILLION PER DAY IN REVENUES. O.A. OKANLA, NNPC OFFICIAL IN CHARGE OF ECONOMIC MATTERS AND ONE OF PRICE HAWKS SAID TO BE RESPONSIBLE FOR APRIL INCREASE, TOLD EMBASSY PETROLEUM OFFICER HE WOULD PREFER TO SEE PRODUCTION FALL AS LOW AS 1.8 MILLION LIMITED OFFICIAL USE

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B/D RATHER THAN CUT PRICES. PRODUCTION HAD BEEN AS LOW AS 1.5 MILLION B/D IN 1975, HE SHRUGGED, AND THE COUNTRY HAD NOT SUFFERED IN ANY CASE, HE ADDED, THE PROBLEM IS NOT OVERPRICING OF NIGERIAN OIL, BUT A DROP IN U.S. AND WORLD DEMAND. THERE IS A WORLD WIDE GLUT OF OIL AND REDUCING PRICES WOULD THEREFORE NOT INCREASE TOTAL REVENUES. MOREOVER, HE CONTINUED, REVENUES FROM OIL FOR THE FIRST HALF OF 1977 ARE LARGER THAN HE HAD PROJECTED, AND ANY SHORTFALL WHICH APPEARS IN THE SECOND HALF CAN BE COVERED BY INTERNATIONAL BORROWINGS WHICH NIGERIA ABOUT TO UNDERTAKE. AS FOR CRUDE OIL BUYERS WHO NOW FORCED TO TAKE NIGERIAN OIL AT A LOSS, HE CONCLUDED, NNPC NEVER GUARANTEED BUYERS THEY WOULD MAKE A PROFIT, ONLY THAT THEY COULD HAVE CERTAIN AMOUNTS OF OIL AT A STATED PRICE. A CONTRACT IS AS CONTRACT. BUYERS ARE ALLOWED TO UNDER OR OVER LIFT BY 10 PERCENT IN ANY GIVEN QUARTER, BUT THAT IS THE EXTENT OF WHAT NNPC CAN DO TO HELP THEM.

8. REACTION OF PRODUCING COMPANY OFFICIALS TO ATTITUDE EXPRESSED BY OKANLA IS THAT WHILE NNPC MAY BE INDIFFERENT TO DROP IN PRODUCTION, IT HAS EFFECT FOR THEM OF CANCELLING OUT FMG'S NEW INCENTIVES TO ENCOURAGE RENEWED INVESTMENT IN OIL EXPLORATION AND DEVELOPMENT. REDUCED PRODUCTION DIMINISHES OVERALL CASH FLOWS AND ALSO MAGNIFIES NEGATIVE IMPACT ON PROFITS OF THEIR OBLIGATION TO SUPPLY CRUDE TO PORT HARCOURT AND SHELL CURACAO REFINERIES FOR DOMESTIC PRODUCT NEEDS AT ARTIFICIALLY LOW PRICES (ABOUT 3 DOLLARS PER BARREL).

9. MATTERS NOT LIKELY TO COME TO HEAD UNTIL OCTOBER WHEN MOST NNPC DIRECT SALE CONTRACTS COME UP FOR RENEWAL. AT THAT TIME, BUYERS CAN DROP CONTRACTS WITHOUT PENALTY. IF NIGERIAN CRUDE REMAINS OVERPRICED THEN, THEY MAY DO JUST THAT. HOWEVER, IF SITUATION FOLLOWS USUAL PATTERN OF EVENTS IN NIGERIA, IT WILL NOT COME TO THAT. BUYERS WANT NIGERIAN OIL, AND NNPC WILL MAKE LIMITED OFFICIAL USE

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JUST ENOUGH OF AN ADJUSTMENT IN PRICES RELATIVE TO WHAT OTHER PRODUCING COUNTRIES ARE DOING TO AVOID A CUSTOMER WALKOUT.

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Message Attributes

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